Housing, Communities and Local Government Committee

Oral evidence: High Streets and Town Centres in 2030, HC 1010

Monday 17 December 2018

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Watch the meeting

Members present: Mr Clive Betts (Chair); Mr Tanmanjeet Singh Dhesi; Helen Hayes; Andrew Lewer; Mr Mark Prisk; Mary Robinson; Liz Twist.

Questions 377 - 468

Witnesses

I: Lesley Smith, Director Public Policy, UK & Ireland, Amazon UK; Andy Mulcahy, Strategy and Insight Director, IMRG; Julie Howkins, eCommerce Development Manager, Hive.co.uk; Clayton Hirst, Group Head of Corporate Affairs, John Lewis Partnership.

II: Katharine Wynne, Director of Investor Relations, Debenhams; Kevin Frost, UK Property Director, Cineworld; Tim Richards, Founder and Chief Executive Officer, Vue International.

Examination of Witnesses

Witnesses: Lesley Smith, Andy Mulcahy, Julie Howkins and Clayton Hirst.

Chair: Good afternoon. Thank you very much for coming to the Committee this afternoon. Before I come over to you as witnesses, I will ask Committee members to put on record any particular interests they have that may be relevant to this inquiry. I am a vice-president of the Local Government Association.

Helen Hayes: I am a vice-president of the Local Government Association. I also employ a councillor in my staff team.

Liz Twist: I employ a councillor in my staff team.

Mr Dhesi: I am a councillor, as per the Register of Members' Interests.

Andrew Lewer: I am a vice-president of the LGA and chairman of the

All-Party Group on Publishing.

Mary Robinson: I employ a councillor in my staff team.

Q377 **Chair:** Thank you for coming. Could you just say for our records who you are and the organisation you represent today?

Lesley Smith: I am Lesley Smith from Amazon.

Andy Mulcahy: I am Andy Mulcahy from IMRG. It is a trade body for online retailers.

Julie Howkins: I am Julie Howkins, ecommerce development manager for Hive.co.uk.

Clayton Hirst: I am Clayton Hirst, group head of corporate affairs for the John Lewis Partnership.

Q378 **Chair:** Thank you for coming to give evidence to this inquiry into high streets and town centres in 2030, looking ahead to what might be happening then. We will probably draw on some examples of what is happening now. Is it true that Amazon is singlehandedly killing the high street?

Lesley Smith: Who are you asking, Chair?

Chair: Everybody.

Andy Mulcahy: I will go first, if you like. No, I do not think so. The problem here is that we have a 20th century infrastructure in a 21st century world. It just has not adapted quickly enough to the fact that the internet is now the main way through which people engage with stuff.

Clayton Hirst: The high street, as we all know and this Committee has been hearing recently, is going through a period of generational change. Amazon is offering a service that is meeting consumer demand, as is our business. Some 40% of our trade in John Lewis & Partners is online. That is responding to the needs of consumers.

Julie Howkins: I represent a website selling books. One of the successes of the high street has been the regeneration of book shops. There are more bookshops opening now than there have been for a number of years. That is primarily because they have had to respond. They have had to change. They have had to become more niche, offering a different kind of retail experience, so there are some successes on the high street.

Lesley Smith: For Amazon, 82% of retail in the UK is physical retail, rather than online. Only 18% is online, of which we are a part but a relatively small part. I would agree with my fellow panellists: there is a huge amount of innovation on the high street. That is partly because customers have changed the way they want to shop. They want to shop for the same things they always have done, which are price, choice and convenience. Some of that they are finding online. That is a great opportunity, but they are also finding a lot of innovation on the high street.

Q379 **Chair:** But 18% is 18% of sales that otherwise, without the internet and online shopping, would have been done physically in shops and stores on the high street. Surely that makes a massive difference to the viability of many other stores. That is why we have empty shops, is it not?

Lesley Smith: Many, many, many—half—of the things that are bought on Amazon are not bought from us; they are bought from third-party businesses, many of which have high street stores. Those businesses have basically responded to their customers by saying, "We want to reach our customers where they want to shop. Some of those sales will be in our physical outlets. Some of them will be online". We have a business, Assai Records in Scotland, which started as an online business and now has two physical stores in Broughty Ferry and Edinburgh, and employs 18 people. Shearer Candles we featured on a small business advert to support our small businesses. They basically have increased their number of physical stores to complement the brand building they have done online, not just through us but through other online sellers.

Q380 **Chair:** That is an explanation of some things that may be happening positively for physical locations on the high street, but the reality is, is it not, that there are fewer shops and less of a need for shops, now and in the longer term to 2030, because people are shopping online? Amazon is a big part of that, is it not? That is the truth, is it not?

Lesley Smith: Amazon is part of it. I would not say it is a big part of it. Many of you will do supermarket shopping online. You will probably spend more on supermarket shopping online than you will on other online shopping. It is a changing environment. We want to meet customers where they want to be. Many, many, many of the businesses selling on Amazon want to meet their customers where they can be. Those include lots and lots of high street shops.

Q381 **Chair:** What percentage of online sales goes through Amazon?

Lesley Smith: I have no idea. We do not have visibility of everybody else's sales. I do not have that.

Q382 **Chair:** You have just said that 82% of retail sales is done physically in stores.

Lesley Smith: That is total retail sales.

Q383 **Chair:** So 18% of total retail sales is done online. You therefore know how much that is; you know how much you do through Amazon. You can work the figures out, can you not?

Lesley Smith: I do not know how much it is.

Q384 **Chair:** If you cannot now, can you give us a figure in due course after the meeting?

Lesley Smith: I can give you an estimate. I cannot give you a figure because we do not know the total online market. We are a very small part of that 18%.

Q385 **Chair:** I am sure you can come back and give us a figure in due course.

Lesley Smith: I am happy to write to you, Chairman.

Q386 **Chair:** Thank you. In terms of the future, then, there are two parts to this question for everybody. Why are the UK's online sales such a big part of total sales, a bigger part than anywhere else in the world? How is that going to grow? Is it going to grow to the estimate of 40% that some people have told us?

Andy Mulcahy: In terms of why it is so successful here, we have a long history of being a retail-type culture. When you look at the infrastructure, we have really good road networks, which mean you can have depots in the middle of the country and you can basically reach anywhere within 24 hours, which is very useful. Not every country can do that. We also have a history of distance selling. Even before the internet was around, you can think of the Littlewoods catalogue you used to have, the Next catalogue and all that sort of stuff. We are pretty well used in this country to buying remotely. It is just that the way we do it now is through the internet.

Clayton Hirst: Research shows that, in the UK, consumers have a greater degree of trust in online retailing than in other countries. Some research has been published by the European Commission on that. Also, communications services in the UK are cheaper compared to other European countries. Data from Ofcom bears that out.

Andy Mulcahy: It is a very good point. In countries like Russia, for example, they have a deep distrust of spending money online because they have endemic problems with fraud. There, they will buy something online and then pay when the thing is delivered to their door. We have not really had problems like that in this country. I am not saying we do not have fraud but that trust thing is not quite as big a problem.

Q387 **Chair:** What about estimates for the future? All of your businesses must be looking at the future and seeing where you have to go, in terms of positioning yourselves.

Clayton Hirst: In our business, we have seen online sales grow considerably. Over the last 10 years, in the John Lewis & Partners side of the business, we have seen that grow by 600%. There is a clear trajectory of growth there. Our strategy in our business is about combining the best of physical retailing and the best of online retailing. There is a real symbiotic relationship between those two services. For example, 88% of our most loyal customers in John Lewis & Partners also shop in store; 80% of our app users also shop in store. We are offering services that blend both the physical experience and the online experience. That is very much the strategy in our business around differentiation, making our services very different to our competitors'.

Q388 **Chair:** What about figures? You all have businesses. You are all looking at where your business is going to be in five or 10 years' time. What do you think the growth will be of online sales? Will it be 40%? Does that feel right or do you think that is an over-exaggeration? If I am a local council wanting to plan the future of my town or city centre, I need some idea of what is going to happen and I will be looking to retailers to tell me, but nobody is saying anything at this stage.

Lesley Smith: We do not have a view on what it is going to be like in 2030. That is a very, very long-term view. We do not spend a lot of time thinking about our competitors. We spend a lot of time thinking about our customers and the things they want to buy from us. A lot of our growth has been going into new categories. We started, as a bookstore only, 20 years ago. We are a relatively young retailer. A lot of our growth has been going into new categories: jewellery, clothing and food in a relatively recent way. That is where our growth has come. That is not born of us thinking there is a cap of this much or a projection of this much. That is about looking at what our customers want, what we can offer them and what we can provide them with that their current buying suggests they would be interested in buying. It is not particularly based on what we think the capacity is for online, because I do not think we know that at this stage.

Andy Mulcahy: The percentage of sales that are made online is one part of it. If you look at the influence of digital on behaviour, while someone might go to a shop and buy something, it is highly likely that they have done some kind of research before they go and do it. The internet plays quite a big role within that. Will it go to 40% of sales made online and 60% still happening in a physical environment? Yes, quite possibly. But the amount that is influenced, probably quite strongly influenced, by digital is going to get a lot higher than that.

Julie Howkins: All I would say is that our growth has been organic. We are not necessarily spending a huge amount of money on promoting our brand. A lot of it is word of mouth, mainly because Hive is slightly niche, inasmuch as we support a network of independent retailers with a percentage of every sale that is made on the website. We are trying to work with independent bookshops across the UK to make sure they have some benefit from those internet sales that they would not necessarily have sight of.

Clayton Hirst: In our business, we have a food and a non-food business. In the food business, Waitrose & Partners, our online sales are growing at around 21% per year. That is because the food market is not as well developed online as the non-food side of the business. In John Lewis & Partners, the non-food side of the business is at 40% or more than 40%. We envisage that will get to around 50% in the next few years. At the same time, we are really focused on our physical property portfolio. As you are probably aware, we have opened two John Lewis stores this year and we are investing very heavily in our existing store portfolio because, to go back to my earlier point, we see a real symbiosis between online and physical retailing.

Q389 **Chair:** You have no plans for closures.

Clayton Hirst: I can never say there are no plans for closures. We keep the estate under review all the time. As I say, this year we have opened two John Lewis & Partners stores and two Waitrose & Partners stores.

Q390 **Mary Robinson:** I have noticed the symbiotic relationship you spoke about. A lot of bricks-and-mortar retailers have moved into online as well. I would quite like to explore what you think about the way this multichannel retail is operating. Is there an estimate, do you know, of how many multichannel retailers there are? Do you know how many there are?

Andy Mulcahy: It is not something we have. I guess something like the ONS might know how many retailers there are, but how many actually how ecommerce capability is probably quite difficult to work out.

Q391 **Mary Robinson:** We are looking at the high street, how the high street has been successful or not, and the impact of online. If, as we have discovered, there is a relationship between online and retail on the high street, it would be interesting to know a little more about that.

Andy Mulcahy: A multichannel retailer is one that has its own store so it can get something delivered to it. If you are an online-only retailer, you can get something bought from your website that gets moved to a newsagent or whatever. Personally, I think this is the kind of model we need to be moving towards. If you think of a small high street where you have 30 shops or something, it is very difficult for that to be competitive today because it does not have the choice or availability. If you could engineer a scenario where anybody living anywhere could get access to anything, that would be the kind of high street that makes quite a lot of sense. That infrastructure just is not there at the moment, but there are a lot of empty shops.

Q392 **Mary Robinson:** How easy do you think it would be for an independent shop to sell online?

Lesley Smith: The lady from Hive will also be able to talk about this, but we try very hard to make it easy for independent shops to sell online and to help them do so. If you are an independent seller, you can sell by listing your stock on Amazon and fulfilling your own orders from your own shop if you want to do so. Lots of companies do that. Lots of companies are fairly small businesses. They will have their own web presence. They will also sell through ours and probably other online outlets as well, and they will do their own fulfilment. If they want to get things moving faster and make it simpler for themselves, they can put things in our warehouses and we can distribute them around the country to where they are likely to be in demand fastest. They can use fulfilment by Amazon. That means they are in the Prime programme, so they are always visible on the search for "is it available next day?" They will very often be running their own retail premises and use that to complement their sales. It has probably never been easier to get online because there are big companies you can use for your infrastructure provision and fulfilment.

Q393 **Mary Robinson:** Do you have any idea of how much more profitable it is for them to change their business model in that way and to sell more online?

Lesley Smith: We do not have that kind of visibility. If someone is selling online, we do not know if they have three shops, no shops or are running it from their garage. We do not have that kind of visibility. We know from people we have done focus groups with, or interviewed, what part of their enterprise we are. That is anecdotal rather than a great big survey.

Q394 **Mary Robinson:** We are looking at the success of the high street. Is this something we need to know more about statistically? I have asked some questions here, and there seems to be not a lot of knowledge about the impact, perhaps, of online and the way it relates to independent retailers. Do we need more research? "Possibly not" seems to be the answer to that one. No problem—let us move on. Mr Hirst, can you tell me the advantages and disadvantages of being a multichannel retailer over an online-only retailer?

Clayton Hirst: It gives us a number of ways to reach our customers. It gives you the convenience of being able to shop online both on your mobile phone and on your PC, but it also gives you the opportunity to have a richer range of services in store. As you are probably aware, we have recently rebranded our business as John Lewis & Partners and Waitrose & Partners. That is to recognise the importance of our partners, the human element of our partners, in our business. To give you one example to bring that to life, in 15 of our stores across the UK, we are trialling a whole range of new services. One of those services is personal styling. You can go in there, book an appointment online, meet a personal stylist, and that personal stylist, one of our partners, will spend one to two hours with you, giving you some really good, detailed advice about fashion and products that we can supply to that customer. At the end of that service, the customer often buys goods in the store, but we also establish an online relationship with that customer. That is an ongoing relationship, which might lead to the customer coming back in store to buy further products or buying products online. There is a really nice blend between the physical aspect and the human aspect of retailing.

Q395 **Mary Robinson:** How does that online relationship work, then? Is it just with a personal shopper or are we talking about online more widely? Is it just that you will be getting in touch more often via any sales that you have on?

Clayton Hirst: No, it is a one-to-one relationship. When you have had that consultation with our personal stylist, they will know about your preferences and the sorts of goods and services you are interested in. They will tailor the offers to your preferences.

Q396 **Mary Robinson:** It sounds like it would be very successful. Looking at your high volumes of online sales, that may be part of it. What else do you attribute it to?

Clayton Hirst: Our business was one of the earlier more traditional retailers, if you would like to call it that, to get into online. We bought a business called Buy.com back in February 2001. That gave us a real head-start in our online operations. We were able to do that because we are as a business employee owned, which means we can take a longer-term view on investment. That is why, today, we have 40% or more sales online in the John Lewis & Partners side of the business.

Another really important aspect is trust. Certainly in the earlier days of online retailing, and to a certain degree today, you had to really establish an element of trust with your customers. As you are probably aware, John Lewis & Partners and Waitrose & Partners come out very high in terms of customer trust.

Q397 **Mary Robinson:** Of course, one of the reasons that people go online is that they think they can get something cheaper. Is it the case that an online retailer can discount more than a retailer on the high street?

Clayton Hirst: In our business, our prices are exactly the same between online and our physical stores. That comes down to the really strong element of trust we have in our business. Also, we do not necessarily think of our business as an online business and a physical business, because the infrastructure supporting our business supports both online and physical retailing. To give you one example, we have a very large distribution centre called Magna Park in Milton Keynes. We invested £150 million in that a number of years ago. That serves the online side of the business but also distributes goods to our stores.

Q398 **Mary Robinson:** But it would not be typical, would it, to have the same price online as in the store? Would that be typical? Does Amazon have a comment on this?

Lesley Smith: We do not have physical stores so I cannot draw a comparison. We cannot draw a comparison because we do not have physical stores. We offer the same price everywhere, but we aim to compete with the best prices that consumers will find. It is a very, very competitive market. Our aim is to offer our customers convenience, selection and the best prices they will find. That is what we do.

Q399 **Mary Robinson:** What about Hive?

Andy Mulcahy: Independent bookshops tend not to discount. They will be selling at full RRP. Books are perhaps unique inasmuch as they have a printed price on them. Discounting has been quite prevalent. Online, Hive does discount. We aim to be as competitive as we can be, but we know that a lot of independent bookshops cannot compete pricewise on bestsellers because they are heavily discounted, not only online but in supermarkets, where there is more buying power. For independent bookshops, it is not so much about the inability to discount on the high street. They compensate for that by offering other services. It is the experience of shopping; it is the hand-selling; it is engaging with customers. With online price comparisons, yes, we do discount.

Q400 **Mary Robinson:** The evidence seems to be that people are buying books online, whether they have a Kindle or another way of getting them, maybe on an iPad or a phone. People are buying books online. They are cheaper, are they not, than going into a bookshop?

Lesley Smith: Did you say they are buying them?

Q401 **Mary Robinson:** They are buying them online. Yes, they are going online and downloading a book.

Lesley Smith: They are doing both. Obviously, we sell lots of books, but we sell lots of e-books too. There is not one kind of consumer who buys only online books and one kind who buys only in physical stores. In fact, there probably is, but most consumers want to do both. When we first launched Kindle, 10 years ago in 2007, it was quite unpopular and it has become incredibly popular because it is amazingly convenient. It is a wonderful thing to be able to download a book in 60 seconds wherever you are. That keeps people engaged with reading. Very often, once people have started buying e-books, they go back to buying more physical books as well, online and offline, because they are thinking much more about literature and reading. Often, people will buy repeat titles; they will buy books as gifts because they have read them on their Kindle. We see that as a big positive for reading in general because it is another way of getting people into literature and keeping them engaged, and particularly keeping young people engaged. It is hard to get them engaged. There is a lot of competition for their attention.

Q402 **Mary Robinson:** Is there research to show that that is the way people are behaving and they are doing more of both? It does not seem they are doing more of both. Evidence seems to be that bookshops have been closing down. I am very fortunate in my constituency to have Simply Books, which was independent bookshop of the year, so I know that some are hugely successful and well supported, but they have been closing down. Is it because of buying online?

Lesley Smith: It has changed. As you said, there is more buying online, yes. There is more buying in supermarkets as well. There are more outlets where it is possible to buy books. I happen to have two bookshops within walking distance of my home. London is quite well endowed with bookshops; maybe other parts of the country are less so. The important thing is that there are lots of outlets where you can buy books, whether physically or online, and lots of opportunities to buy books. That is a fantastic opportunity not only for readers but for authors. Authors are now able to self-publish. There are many more titles being published. Authors are able to make a good living by self-publishing books and often then being discovered by mainstream publishers. The National Literacy Trust did some work on children and literacy, and said that one thing that e-readers help with is young reluctant readers and boys who are very engaged with phones, mobile devices and mobile entertainment. It is a way of holding their attention. We feel that the more opportunities there are to engage with readers through whatever channel, the better.

Q403 **Mary Robinson:** Mr Mulcahy, is that the trend, that people are doing more of both?

Andy Mulcahy: Whether they are buying books or they are downloading books, that is not a bit of data I would have, to be honest. To come back to the original question you were asking, which was about whether they are able to discount more, the costs that you have associated with fulfilling something if you are an online retailer are specifically around delivery. If you go out to buy something, obviously that high street retailer does not have to send it to you. If you are an online retailer, you do then have to take on the cost of sending it to them. You can always put a cost on, of course, say £2.95, to get that thing delivered, but that pushes the total price up. At the moment, 24% of things bought online get returned. If an item gets returned, it is quite likely that the company will have to send a van to pick it up from your house.

This brings me to another point, which is about collection versus receipt of something. If you buy something online, we have a really big culture in this country of delivering it to your house or office, which is not particularly efficient and is not very good environmentally. As that environmental pressure builds, there is a need to incentivise collection of stuff so people will go and get the thing themselves. Then things can be consolidated. If you can build that kind of infrastructure where I can go in, there is a changing room so I can try on the trousers or whatever, and I do not need to send them back or order three pairs in order to go over a certain threshold and get free delivery, et cetera, that is a really big factor that the high street can address.

Q404 **Liz Twist:** Mr Mulcahy, I was interested in something you said. You were talking about the future of the smaller high streets and I get that you do not think that is sustainable in the future. Can I ask all of you whether you think there is a purpose to the high street other than selling?

Andy Mulcahy: That is most probably what is going to happen, but it depends how you try to adapt that stuff. Some of the suggestions I have heard typically sound like things that are already there: putting more coffee shops in, more restaurants and things like that. The fact is, in some locations, if you build a nice food stall area or something, it will be really popular and work really well. I do not think everywhere can do that. Can you put more entertainment and things like that in? Yes, I suspect you can. What we really have to avoid doing here is getting rid of retail from those locations, if we take that step where we go towards leisure and entertainment and you do not have that network. Click and collect is a really popular thing to use. One in three online sales for a multichannel retailer uses click and collect. If people have that option, they will go and use it.

Liz Twist: I will be asking you about that in a minute.

Andy Mulcahy: Okay. People will do that. I get the feeling that, if we strip away the amount of retail space we have and replace it with something else, we are removing the opportunity to do that. There is a precedent for this. If you think about the Post Office, it used to have a network that was absolutely comprehensive throughout the UK. There was one in every local village and things like that. That has been scaled back quite a lot over the years because the services were not quite as in demand any more. If we had that network now, we could adapt it so it was just there to deal with fulfilment. Things could get delivered there; someone could go out and collect an item; you could consolidate the orders and do that in a more environmentally sound and efficient way from a business perspective. That would have been really great. It is great to say that with hindsight, clearly. We were not necessarily thinking that 10 years ago.

Q405 **Liz Twist:** That leads me quite neatly to you, Ms Smith. When we were asking you about looking to the future, you said 2030 is a long way away and you focus on your business rather than the bigger picture. Given the instance we just heard about of the Post Office network and hindsight being a great thing, is it not incumbent upon those of you who are online retailers to think about that bigger picture for retail, rather than just your own business?

Lesley Smith: Absolutely, and I would agree with a lot of what Mr Mulcahy said. We use the Post Office network very heavily, obviously. We have 16,000 click and collect points of various sorts. Some are lockers; some are over the counter. That includes 10,000 post offices. It includes WHSmith newsagents and outlets, lockers in the Co-op, lockers in Budgens, lockers in libraries, lockers in car parks, shopping centres and so on. We want to be in the places where shoppers are going. Those retail outlets are very keen to do that because that drives retail footfall for them. They get a small fee for providing a space and they also drive footfall into their stores. There is data in the States—I do not have data here—that shows there is an uplift in sales: when people come in to collect something, they will buy something in the retail outlet that is there.

We have 27,000 staff around the country. They want to live in places where there is a good high street. In Doncaster, interestingly enough, they have reenergised a lot of their high street and worked very hard on that with the local authority and local entrepreneurs. There is a woman called Fran Bishop who was the runner-up on "The Apprentice" a couple of years ago. She runs a business selling children's clothing called The Pud. She has just opened her third physical store. She also sells online but she is mainly a physical stores business. That is in Doncaster, Warwick and has started in Nottingham.

There is evidence that you can start a retail concept and make it work on the high street. Retail has always been a mixture of great offers, great prices, great convenience but also a bit of theatre and a bit of innovation. That is what she has demonstrated. We are not experts in selling on the high street. We have had pop-ups to test how things work or test what we are selling online in a physical space, but they are very small. We are interested in working with communities around the places where we operate.

Julie Howkins: One of Hive's USPs is the fact that we offer the option of free collection in store, which is driving footfall to independent bookshops. We have a small network, compared to Amazon, of just under 300 bookshops. The customer can choose to collect their order from a bookshop, increasing footfall to the store. The bookshops quite like the fact they are engaging with customers they would not normally have access to.

Clayton Hirst: In our business, we are in the process of trying to reinvent the department store for this century. If you go into one of our larger department stores, you have access to a range of different services, such as personal styling, which I have mentioned, and beauty consultations. In Oxford Street, you can go ice skating this Christmas on the roof. You can do a range of different things. We are doubling down on that as our business strategy. One of the panellists talked about theatre. The nub of retail now is providing theatre to customers. To bring that to life in our business, we have trained 300 of our partners in theatre skills, because we recognise that that human element when you go into a store really helps to drive sales and drive the experience for our customers.

Q406 **Liz Twist:** For the three of you who are primarily online, do you think there is any responsibility upon you to try to ensure you are part of a mixed culture of retail or is that not your business?

Julie Howkins: Yes. That is the reason that Hive's concept came about. It is really to help those independent bookshops that do not have the capacity, the resource or the time to trade online. Yes, we feel a responsibility, while it is a small step, to work with those independents, to help them attract new business and engage in new footfall. We pay them a commission on the sales that we generate through our website. Fundamentally, it is about supporting those independent bookshops.

Lesley Smith: I mentioned the sellers that sell through marketplace. Our advertising campaign in October on television was highlighting those sellers. It was all about small business sellers. The catch line that this particular small business used was basically saying, "We want to sell for 24 hours", so they are on the high street in the daytime, but when they turn the "closed" sign on the physical store they switch to being an Amazon seller and they sell throughout the night. We have particular marketing campaigns to support those businesses. Launchpad on Amazon is about innovative business that are selling new inventions and new technology, which we can promote.

Clayton talked about the theatrical discovery that you have in a physical store. It is hard for any business to work out how to replicate that discovery online. You think about how you can support the businesses that are selling on Amazon. We use Launchpad and we use Handmade on Amazon to ensure those businesses get the visibility for their products and the discovery opportunity they could get in a physical store, but online.

Q407 **Helen Hayes:** Following on from the questions Liz was asking, in my constituency we have a wealth of independent bookshops. They are fantastic and many of them are members of Hive. They tell me that network works very well for them, in driving footfall to them and increasing their trade. Some of them would also say that they watch customers coming in, taking advantage of their great creativity in putting on displays, reviewing books, displaying content they might not find easily online otherwise, then going away and ordering it for cheaper on Amazon. As Amazon, do you feel you benefit from that physical showcase in the high street? Do you feel any sense of obligation at all to repay some of the benefit you derive from independent retailers, which are putting in the resource physically and showcasing products that are then otherwise available to customers?

Lesley Smith: We have a great many independent sellers selling online. Many of them will have a store and will be selling online as well, including several thousand booksellers who are also selling online. We will be part of their online offer. The reverse also happens. People browse online. They browse online to look at product attributes and product offers. Then they will very often shop in a physical store when they happen to go shopping on Saturday if they see the item and they want it immediately. Customers will always do both of those things. I understand completely. I photograph things in stores, not necessarily to buy online but just to remind myself that that is the thing I am going to come back and buy. I happen to have a bookshop at the end of my road. I bought a book in a physical bookshop at the weekend but I also buy online. Lots of customers do both of those things.

Q408 **Helen Hayes:** I want to turn now to the question of business rates, which is one of the issues on which we have had a lot of evidence already in this inquiry. First of all, to Ms Smith, Mr Hirst and Ms Howkins, what proportion of your turnover do business rates currently amount to?

Lesley Smith: I do not know that figure. The slightly complicated thing is that we do not report country by country publicly. We file all our sales with HMRC but we have a single European company that basically does all the sales across Europe. In the UK, we have a business, Amazon UK Services Ltd, that files in the UK, which is the fulfilment and service part of our business. We file our sales with HMRC and we file our profit and loss on those. Then we report in a 10-K as part of our American filing, but we are an American business and we file our accounts internationally. A lot of misinformation has spread about our business rates. I have seen reports that say we have only nine buildings. We have more than 100 buildings. We pay many times what I have seen reported in our business rates. There has been quite a lot of misinformation about that.

Q409 **Helen Hayes:** What you have described is a very confusing landscape as far as Amazon's taxation is concerned.

Lesley Smith: I apologise.

Q410 **Helen Hayes:** There are multiple ways, it would seem, for information to be redistributed across Europe and for it to be reported in the UK.

Lesley Smith: They are not multiple. There is only one way of reporting. We have to have our accounts audited like anybody else and we have to file in a certain way. Our inventory is owned across Europe. Our inventory is held by Amazon EU Sarl, but then, in each of the countries in which we have a website, we file our accounts with HMRC or the relevant tax authority. We file in the UK all our retail sales, but our sales are reported globally and there is a breakout of UK sales in an American thing called the 10-K. That does not include only online. That includes everything in the UK. It is not only our retail sales.

Q411 **Helen Hayes:** Business rates are one bit of business taxation in the UK and they are very specifically about the premises that you operate from as businesses. It should be relatively easy to know as an organisation operating in the UK how much you are paying in business rates. It would be very helpful for the Committee if you were able to write to us with that information.

Lesley Smith: I am happy to write to you.

Q412 **Helen Hayes:** One of the issues at the heart of the inquiry is that online retailers typically have much cheaper premises. Therefore the valuation that they have, in terms of their rateable value for business rates, can be a lot lower than smaller high street retailers operating, on a per square metre basis, more valuable premises. One of the things we are most interested to look at is whether there is indeed that imbalance happening in the world of business rates. That information would be very helpful.

Lesley Smith: There is a big difference because the premises fulfil different functions. The reason you have high street premises if you are a shop is to bring customers to you. You are effectively paying for a very visible site in order that customers will come to you. In our case, we have very large spaces. We have about 100 units around the country. Those units are chosen to service our whole customer base throughout the country. Our business model is different. We are paying a lot more in fulfilment and delivery costs because our customers do not come to us; our customers wait for things to be delivered to them. The model is different. We pay business rates as part of our overall tax payment, but it is not the only part.

Q413 **Helen Hayes:** There is no equivalent tax on your showcase, though, which is your online presence.

Lesley Smith: No, but we have invested £9.5 billion in our showcase. We have invested £9.5 billion in technology, infrastructure and fulfilment infrastructure in the last eight years. The investment pattern is different. In some cases, you are investing in retail space. In other cases, we are investing in the technology that shows you recommendations or enables us to broaden the website, and developing the technology to support our business and support fulfilment.

Julie Howkins: Hive operates out of offices that are run by our parent company, which is the Little Group. It is a large wholesaler in the UK. We are cross-charged for the space that we occupy. In terms of business rates, I do not know how much the business pays but we pay for the amount of space that we occupy in the central office.

Clayton Hirst: In our business, we have 399 stores, which are John Lewis & Partners and Waitrose & Partners stores. Last year, 2017-18, our business rate bill was £174 million. Our turnover was £11.6 billion so that means that roughly 1.5% of our turnover was business rates. It is worth mentioning that business rates are just one of three big taxes that businesses like ours pay. We pay £174 million in business rates. We also have a very significant employer national insurance bill, which is £120 million, and corporation tax at £44 million. One of the important things to consider when you are thinking about taxation and business rates is that the way the current UK tax system is geared up weighs very heavily on people and property-intensive businesses. People and place are the two things that make the UK high street vibrant. If we are thinking about business rates, there is a question about whether you need to consider wider business taxation as part of that conversation.

Q414 **Helen Hayes:** As a retailer that trades both online and physically in stores, how do your costs differ from your competitors that are doing only one or the other of those things?

Clayton Hirst: The biggest difference is people and property, as I said before. On property, we obviously pay a significant amount in business rates and we have a very large rent bill. On people, we employ 83,000 partners in the UK. When you look at all the costs in our business, the people cost, which is wages, social security payments and pensions, is the single largest cost in our business. That came out at £1.85 billion last year. That is the biggest difference between a pure-play online retailer and an integrated operation like ours.

Q415 **Helen Hayes:** I suppose this is a question for both Amazon and John Lewis, and maybe Hive as well, in terms of how you operate. As I was saying, one of the issues on which we have had lots of evidence is the uneven landscape around business rates, because a lot of distribution-based businesses are able to locate their premises in cheaper property market areas of the country. To what extent does rateable value for business rates drive where you choose to locate your warehouse distribution centres?

Lesley Smith: It does not, really. We want to have a network that serves the whole country and all our customers wherever they are, so that is really what drives where we are going to be. One thing that drives our location is availability of labour. Mr Hirst mentioned 83,000 partners for John Lewis. We have 27,500 people working for Amazon; plus we have about 20,000 extra at Christmas, as well as a network of independent drivers who are also supporting our business. We are supporting a lot of people, and the independent retailers that work with us are supporting about 85,000 jobs. There are a lot of people involved in supporting our business. Similarly, we are paying employer taxes on that employment as well.

As for what really governs the location of a warehouse, it needs to be close to a road network; it needs to have a good source of available employment; there needs to be a big enough space. There is quite a lot of competition for larger warehouses at the moment because all retail businesses are doing lots of deliveries. There is a big growth in demand for that space. We aim to have a network that allows us to serve the whole country as efficiently as we possibly can and to deliver our customer promise.

Clayton Hirst: It is the same for our warehousing. It is about the geography to serve our network of customers and our network of stores. That is the primary driver when we are deciding where our distribution facilities are located.

Helen Hayes: How does Hive operate its distribution network?

Julie Howkins: Hive operates from a third party. The third party is based in Eastbourne and has been there historically. It is a family-owned business and it will stay there. There are no plans to expand into other areas.

Q416 **Helen Hayes:** Bricks-and-mortar retailers complain that multichannel and online-only retailers are paying less tax, if you take into account all the ways in which businesses are taxed, as a proportion of their turnover while making use of the same services and infrastructure. Is that a fair complaint and what is your response to that assertion?

Clayton Hirst: We are not one of the retailers that have been complaining. We believe, to my earlier point, that there is a need to look at business taxation in the round and the fact that it weighs very heavily on people and property, but we are not of the view that you should design a tax to capture specific businesses or a specific business model. It is fair to say that the UK business taxation system is probably designed for an analogue era and we are now very much in a digital area, so there is a need to review that.

Lesley Smith: I would agree with that. Retail is highly, highly competitive with a relatively low margin. In our particular case, while John Lewis & Partners has a history of over 100 years, we are much younger. We have only been here for 20 years. We are a relatively new establishment and we have had very heavy investment in that period. That will mean that profits are lower and therefore tax will be lower in the shorter term. The Government have made it very clear that they really want to look at the whole process, particularly for multinational businesses, of taxation through the OECD, and we agree that you need a holistic look at how you do that. You need international agreement, and we would support that development.

Julie Howkins: At Hive, we pay UK taxes. We are a UK company; 98% of what we sell is sold in the UK.

Q417 **Chair:** I want to come back to Amazon for a second. John Lewis has set out its total sales. It has set out its business rates, national insurance payments and corporation tax. You have helpfully said that you will provide the Committee with Amazon's business rate figures. You provide HMRC with the UK sales figures so presumably you can give those to the Committee as well.

Lesley Smith: We do not report our sales country by country.

Q418 **Chair:** No, but you give them to HMRC.

Lesley Smith: Yes, we do report to HMRC.

Q419 **Chair:** They are there. You have them.

Lesley Smith: We do report them to HMRC.

Q420 **Chair:** So you can provide the Committee with them.

Lesley Smith: I will need to take advice, Chairman.

Q421 **Chair:** I am formally asking you to provide them, please.

Lesley Smith: I will take advice.

Q422 **Chair:** You can also give us a figure, can you not, for the national insurance payments you make and the amount of corporation tax you pay?

Lesley Smith: I will take that back and I am happy to act on it.

Chair: It is a formal request for both of those as well. Thank you.

Q423 **Mr Dhesi:** Mike Ashley at one of our Select Committee meetings earlier this month very helpfully suggested to us that a 20% tax on online sales would incentivise retailers to open, maintain or even increase their presence with regards to high street stores. In your view, do you think it would have this effect, Mr Mulcahy?

Andy Mulcahy: It quite possibly would. There is a massive question over whether that is something we want to try to do, because what we are trying to do there is dissuade people from using the internet to buy things. That strikes me as an incredible step backwards. Instead, we should be looking at how we can adapt the infrastructure and what works for the shopper. Retail is all about the shopper. If you put an infrastructure in place that they are going to respond to, that is what they will use.

Q424 **Mr Dhesi:** Ms Howkins, what do you think? If you are not in favour, what do you think would help?

Julie Howkins: I am not in favour. It depends on how you categorise online retail. Online retail is not just about the Amazons and the big brands. There are lots of people working out of a shed or their back bedroom. They are trading online. How do you differentiate between a company that is selling millions of pounds' worth and a sole trader that is selling exclusively online? I do not understand how you would apply that 20% rule.

Mr Dhesi: Mr Hirst, what do you think? Would a 20% tax on online sales help our high streets?

Clayton Hirst: No, it would have a negative effect on the high street. To survive, the high street needs strong, successful retailers. The strong, successful retailers of the future and today are retailers that have both an online operation and a physical operation. If you introduced that tax, it would have a very negative effect on the UK high street.

Mr Dhesi: What is the solution, then?

Clayton Hirst: I do not think there is any silver bullet. There have been numerous different inquiries into the high street and some good work has been done, but I do not think there is one single thing that can solve the issues for the high street that this inquiry is looking into. I have suggested one thing that I would urge the Government and this inquiry to think about, which is the wider business taxation system. I do not think there is one single thing that will save or help the high street.

Mr Dhesi: What do you think, Ms Smith?

Lesley Smith: I share the views of some of my colleagues. The British Retail Consortium before the Budget argued very strongly, representing a very large number of UK retailers, that it did not want to see new taxes applied to consumers. Obviously, there is already a tax on retailing, which is value added tax, so you would be adding an additional tax to that. I completely agree with Ms Howkins, in that we have lots and lots of independent sellers who are building businesses, some of which are entirely online businesses and relatively small businesses. To say, "We are going to hold you back with 20% of tax on all your sales" would be counterintuitive. How are you going to encourage innovation while putting a brake on it by applying extra tax?

Q425 **Mr Dhesi:** Another thing that seems very unfair with regards to bricks-and-mortar retailers on our high streets is the fact that, for online retailers, workers' rights, pay and conditions are poor. In essence, many of them are being treated increasingly like robots, for example in Amazon warehouses. How would you respond to that?

Lesley Smith: On Amazon warehouses, I would refute that totally. I spend a lot of my time in Amazon warehouses. I am in and out every single week.

Mr Dhesi: That is not what media reports are saying.

Lesley Smith: They do not report about me, obviously. I very much regret what has been said in the media. We work very hard to be a competitive employer. You may have seen that we recently increased pay to £10.50 an hour minimum in London and £9.50 an hour minimum around the country. Mr Betts has been to one of our distribution centres in his constituency.

Chair: Yes, I have.

Lesley Smith: We aim to be a highly competitive employer. We offer a range of benefits. We offer a lot of training. We offer apprenticeships. We offer a career choice that enables you to be paid for up to four years of training in vocational courses. We pay 95% of the fees of that course if you want to develop your career. We offer staff discounts. We offer income support. We offer subsidised canteens. We obviously offer pensions.

Q426 **Mr Dhesi:** In addition to that, you are also offering lots of zero-hours contracts. That is what the union members are telling us.

Lesley Smith: We do not have zero-hours contracts. I am very sorry, Chairman, to go through you to correct that. I do not know why that is being said so often. We do not have zero-hours contracts. The vast majority of our staff are working 40 hours a week. That is also true of agency staff; they work 40 hours a week. If agencies are recruiting people and there is no work available, they are required to pay them for 20 hours even if there is no work. We have not had zero-hours contracts. I am afraid this has been repeated again and again by people who want to question our working relationships. It is simply not true.

We also run a very safe environment. On Health and Safety Executive figures, we are 40% safer than the average for the logistics and distribution centre. Those are verified and publicly recorded figures. I would urge any of the Committee who would like to visit our warehouses and our fulfilment centres to come and see for yourselves.

Mr Dhesi: That is good. That is all on record now. With regards to that same scenario, what about working conditions, Ms Howkins, at Hive.co.uk? Is everything good?

Julie Howkins: Yes. The parent company, Gardners, has a large distribution centre in Eastbourne. It has published some figures for salaries, gender pay and conditions. Everyone is on contract. There is no question.

Mr Dhesi: That is good to hear. Mr Hirst, how about John Lewis?

Clayton Hirst: As you would expect, our business is owned by our partners and we take the treatment of our partners extremely seriously. We invest very heavily in the pay, the benefits and the training of our partners. The same goes across both our stores and our warehouses. Just to put it on record, we do not employ anyone on zero-hours contracts either.

Julie Howkins: There is more to online retailers than distribution centres. There are teams of creative marketeers and digital experts. It is not just about the distribution hubs; it is about all the people who work in the business. They are highly skilled, highly paid and highly rewarded.

Lesley Smith: I agree with that. We are recruiting brilliant computer scientists every year. We have just announced a new centre in Manchester. We have tech development centres in Edinburgh, London and Cambridge. We offer a women's innovation bursary because we are trying very hard to get more women into high-prestige jobs in technology and computer science. We have degree-level apprenticeships for people doing robotics engineering. We are really keen to see people develop long and futureproof careers that will have a very long run, supported by technology training.

Q427 **Mr Dhesi:** That is very good to hear. I am merely putting out there what we are hearing from social media, the media and unions. Mr Mulcahy, what do you think? Is there an unfair and non-level playing field with regards to working conditions online versus high street?

Andy Mulcahy: Is this back into distribution centres, specifically?

Mr Dhesi: Yes.

Andy Mulcahy: You mentioned at the top of your piece that working in a distribution centre is a slightly robotic job. If you work in a distribution centre today, it is the same kind of thing as if you had worked in factories for quite a long period; it is by necessity a fairly repetitive job that you are doing. You are taking one thing from there and you are putting it there; you take things along the conveyor belt. That is probably the nature of the beast. We probably need some pretty specific examples of what is going on that is really so nasty.

Lesley Smith: I would urge you to come and visit. I offer that to anybody. In fact, we run public tours. Many people sign up. Schools sign up; pensioners sign up; all sorts of people sign up. They are very well attended throughout the year and we offer them around the country.

Mr Dhesi: I look forward to being on one of those tours later on.

Lesley Smith: We would be delighted if you would come.

Q428 **Liz Twist:** How can online shopping complement and support the high street? We touched briefly on click and collect as a way of increasing footfall. What are your thoughts on that?

Clayton Hirst: Click and collect is a really important part of our business. More than 50% of online sales through John Lewis & Partners is actually collected in one of our estates, which is either one of the John Lewis stores or one of the Waitrose & Partners stores. We find that our customers really like that service because there is a convenience of going into a Waitrose store, picking up your groceries and collecting the goods you have bought online. We are very proud of that service and we think it is a very important way to get people back into the high street through our online operations.

Julie Howkins: We support our independent bookshops through social media, retweeting activities and events that are happening in store to increase footfall.

Q429 **Liz Twist:** Are all your deliveries through bookstores?

Julie Howkins: About 40% of orders placed on Hive are delivered back to a bookshop for collection. We also give support through advertising and help to promote any activities that are happening online and in store.

Andy Mulcahy: I would adjust the question slightly to ask, "How could the high street support online?" That is perhaps the way that we never quite look at it. As I said before, we have an infrastructure that is very 20th century, whereas online is all about choice, availability, convenience and all that sort of stuff. The high street is not really about that. The high street might be 30 or 40 shops and that is all you have. That infrastructure needs to be adapted so that those locations can be the sort of places that the modern shopper actually wants to go to because it is part of their shopping journey, which incorporates a lot of online.

The problem that online always has is that there has to be a physical interface between person and thing bought. When you look at the infrastructure that we have at the moment, so central locations and buildings that are dedicated to retail, you would think that that is not a bad start. But at the moment it is too single-retail focused, by which I mean you have a building and there is just one retailer in that building; nothing else can come in or out from any other retailer.

By the way, I am not saying that traditional shops are going to go. You will always have traditional shops. But, built within that, you have to enable digital to really happen in a meaningful way. To the environmental point I made earlier on, getting people to go and collect things is a much better way to do things, because people can consolidate orders and stuff like that. It is not for everything. Some things need to go to your home. For example, if you are buying chilled foods, it is much better for them to go to your house. If you are buying a bed, you do not want to be carrying it home. For a lot of things, you can go and pick them up yourself and, in doing so, you would do it in a more efficient way.

Lesley Smith: I agree with all my colleagues about the things they are saying. As I mentioned earlier, we have lots and lots of click and collect locations, many of them in retailers. One of the things that consumers want as well is the flexibility. If you are working in an office, you probably want evening collections in lots of places. I am rather fortunate in that I can collect in my own office but I can also collect in the evening in my office. We look for locations for lockers where there is evening access, in places like Doddle where they can collect after work in the evening and there is no cut-off at 6 o'clock, because people want to collect at 8.00 or 9.00.

To add to what Mr Mulcahy said, deliveries are not necessarily non-environmentally friendly. If you have a van that is going out and delivering 150 or 200 parcels in a day, it will reduce car journeys to some extent because you will not have as many single car journeys with people going shopping or collecting. Consolidation helps.

In the US, we have Amazon hubs, which are very similar to our lockers but are designed for apartment buildings, where only the people in that apartment building will get access to it. The quid pro quo for that is that those hubs can accept deliveries from any retailer, not just from Amazon, so it becomes a useful thing for other retailers to drive their sales because there is a convenient method of collection. There is a lot of innovation and a lot of opportunity to work with other retailers. It has been great working with the Co-op, Budgens and the Post Office, and we would like to do a lot more of that and look at more opportunities for getting things to consumers and helping them to drive footfall.

Q430 **Liz Twist:** Do you think anything more could be done to encourage the use of click and collect? Are there any barriers in the way of doing that? We have heard, for example, about planning permission being needed.

Lesley Smith: The Government did something about three years ago. If a retailer wants to have lockers on its premises, I do not think it needs planning permission any longer, though you still need planning permission in other locations. That is fair enough because councils and local authorities have to think about street furniture, how things balance each other, traffic flow, footfall flow and so on. I do not think we have found particular barriers. We are always on the lookout for more sites but councils are not necessarily difficult about it. They make clear where there are difficulties and they are often helpful in trying to find other sites.

Liz Twist: Do the rest of you have any ideas about how click and collect could be made easier?

Clayton Hirst: From our perspective, we do not see any barriers because we are using our existing property portfolio. The only barrier to us is growth. It is a tremendously popular service for our customers.

Julie Howkins: Free parking and access. If you are collecting something bulky, it is about having transport.

Andy Mulcahy: It is also about where these locations are. We are talking about the high street here, which is a central place that might have issues with parking et cetera, but there are a lot of empty buildings in local areas, which perhaps could be used as inventory hubs where people can go and pick this stuff up. The challenge you have at the moment is that the buildings that are currently used, such as newsagents, are not designed to be click and collect hubs; they are newsagents. If you were building that kind of thing now, you would put a changing room in there. You would perhaps put some electrical equipment that you could test stuff with when you go and pick it up. You could even have ones that are dedicated to certain product categories if you had that to play with. It needs to be built from the ground up.

Q431 **Liz Twist:** You have posed an interesting question. You said we are looking at this from the point of view of the retailers, which we are as that is the scope of our inquiry, but the kind of thing you are suggesting there, a self-contained hub, does not sound as if it would help the high street very much.

Andy Mulcahy: We are trying to force people to act in a certain way that is convenient for us to adapt to as businesses. If you want people to use this stuff, it has to be really convenient and useful for them. I do not think we should lose that. One example is Reading town centre. I went to Reading a few months ago and I was struck by how busy the high street was. It was packed with people. It is a pedestrianised high street. Just afterwards, I read that, according to a local data company, it had the second highest number of new shop vacancies for that month. Footfall is not the same as retail doing really well. There is something missing there, and I think that connection is what is missing.

Mary Robinson: I have a quick question about business rates and other taxation, relating to a comment that you made earlier, Mr Hirst, when you talked about having a look at the wider business taxation system. One issue that is raised a lot is around business rates. We understand that, from Amazon's point of view, it has been criticised for paying less in corporation tax this year than the previous year by a factor of half. The taxation system is seen as not working. When you talk about looking at the wider business taxation system, what do you mean? What are the changes that you would like to see? I would be interested to hear from Amazon too.

Clayton Hirst: It weighs very heavily on people and place, and those are the two things that create the vibrancy of the UK high street. There is a need to potentially look at the three key tax burdens on UK business, corporation tax, business rates and employee national insurance, to make sure that it is in balance and in check with the modern ways of doing business.

Mary Robinson: What would Amazon like to see changed, if anything?

Lesley Smith: On the taxation that you mentioned, we have been in a heavy investment phase. Obviously, tax is based on profit so that affects profitability. In that particular case, we had expected to pay more tax, but we give our staff shares in the company; we have always historically wanted to encourage share ownership in the company, and our shares went up. The way that the accounting works is that you account for the value of the shares you give out, but then you have to account in your accounts for the value they have when they vest. When the shares went up, therefore, the figure we had to put in our accounts for the amount that was taken off our costs went up and that depressed our tax rates. That was not anything of our doing; it was the fact that the shares went up, and they have now come back down again. That just has an effect.

We, similarly, want to see something that reflects the total value. I do not pretend that that is an easy conundrum for Government to work on, but we want to work with Government and with international Governments. We have a good relationship with and are very open with HMRC, and we will continue to be very open with HMRC and HMT as they reach a solution.

Mary Robinson: You indicated earlier around the OECD work that you are keen to see some work done there and you would comply with it.

Lesley Smith: Yes.

Q432 **Mary Robinson:** Equally, the Chancellor has said that, if nothing is done at that level, he will just carry on and do it anyway. Would you be keen to comply then?

Lesley Smith: Well, he said he would introduce a digital services tax as an interim measure, I think really to force progress at the OECD. We are concerned about that because that is potentially distorting. You are basically applying a 2% tax to a revenue stream rather than a profit stream irrespective of the profitability of that stream. If you apply a 2% charge to something that has a 40% margin, that has a lesser effect than if you apply it to something with a 2.5% margin. You are effectively saying, “Okay, I am going to charge an 80% tax on that revenue stream”. We are very concerned because that potentially applies to our marketplace business, which is purposefully a low-margin business because we want to ensure that sellers are able to use that business.

That potentially affects seller charges and that falls straight through to small businesses. It also potentially distorts the speed at which you get to an international solution. The Treasury recognises that; it wants to see an international solution. It is introducing this as a forcing mechanism. We would much sooner see progress towards an OECD-wide agreement.

Q433 **Chair:** Finally, we had quite a long talk, and Mr Ashley encouraged this, about the state of play in retailing. Is it all about particular issues or is there just a general downturn in retail sales at present?

Clayton Hirst: There is a bit of a perfect storm taking place in the retail sector, with oversupply of space, both physical and online, and a dampening of consumer confidence over the last 12 months. Those and a number of other factors are contributing to significant problems both on the high street and online. We are going through a difficult period and we in the John Lewis Partnership have acknowledged that. When we published our half-year results, we set out very clearly what those issues were and the fact that they have affected our profit margins. One of the characteristics of the market at the moment is that there are significant levels of discounting taking place in the high street and online. As the John Lewis Partnership, you are probably aware that we are famous for this promise, "never knowingly undersold", which means that, if one of our competitors on the high street reduces its prices, we have to match that to maintain the level of trust with our customers. It is a very difficult market to be treading in at the moment.

Andy Mulcahy: That is a very important point. The level of discounting that is going on at the moment is really, really staggering and is very contagious. When some companies get stuck in discounting, it forces their competitors to do it and there is then a knock-on effect. What you are seeing at the moment is that knock-on effect really going through everybody. We saw the ASOS figures that were published earlier on. It is a very strong online company but has been hit very much by the fact that it has to discount so much. It is still selling things, but at such a lower price point that it is getting impacted by that.

Talking about the future, you have this infrastructure of small shops, so it is not all department stores. A small shop could stock perhaps 200 products or something like that, and then you have the internet, which provides complete and utter choice nationally and even internationally if you want to buy from other markets. That is the real crux of what is going on here. Those two things are just not compatible any more. It just does not make sense.

Q434 **Chair:** Is Amazon suffering as well as everyone?

Lesley Smith: We are a listed business so I am afraid I cannot talk about current trading outside our usual financial reporting schemes. It is a very competitive time. Customers have a lot of choices. Retail is highly, highly competitive and that is the same for us as it is for anybody.

Chair: That was very diplomatically phrased. Thank you all very much for coming to give evidence to the Committee this afternoon.

Examination of Witnesses

Witnesses: Katharine Wynne, Kevin Frost and Tim Richards.

Q435 **Chair:** Good afternoon. Thank you very much for coming to give evidence to the Committee this afternoon. For the record, could you say who you are and the organisation you are representing today?

Katharine Wynne: My name is Katharine Wynne and I look after corporate and investor relations for Debenhams.

Kevin Frost: I am Kevin Frost, the property director for Cineworld Cinemas here in the UK.

Tim Richards: I am Tim Richards, founder and CEO of Vue Cinemas. We are born and bred in the UK. I moved over here 20 years ago and spent the first half with the Labour Government and the second half with the Conservative Government. We now have one of the largest cinema operators in the world, employing about 10,000 people in 10 countries. I thank all of you.

Q436 **Chair:** Thank you very much for coming. Are stores and cinemas the future of the high street or are they the past?

Katharine Wynne: Shall I start on that one? That is actually a very interesting question because, clearly, we have seen over recent years that the growth in leisure spending has been outpacing retail sales quite significantly. Department stores are about giving our customers an opportunity to spend in some leisure categories as well as meeting their basic needs. That is the direction of travel and we are starting to see evidence of it in some of the new shopping centre developments we are working on.

Kevin Frost: Certainly, cinemas and the leisure sector as a whole have a part to play in high streets and town centres of the future. Leisure is in the mix together with retail, hospitality, residential and business space. All the various sectors can play their part and leisure will be a key feature of that. The main leisure offer is cinemas. The key point I would want to share with you is about the type of cinema. There are various different types of cinema offers and it is important to understand that, for any town centre or high street, you need the right offer for the town and the catchment.

Tim Richards: The leisure sector is the fastest growing part of the economy. It is the fastest job creator in the economy right now. Cinema has gone through a major resurgence, notwithstanding everything that you have probably read about in the past few years. In particular, the UK is going to have its biggest year this year in over 50 years. The US market, which everybody had written off a few years ago, is also going to have one of the biggest years in history. We are a very strong and vibrant business.

Roughly one half of our cinemas are in city centres. We are a very big part of every single council and town community in the country. Today, we still have local councils writing to us, and to my colleague, I am sure, to come in and build a cinema in their community. We are a safe harbour. We create jobs. We create a safe destination hub for families and others.

Q437 **Chair:** Is there a concern that what the internet has done to retail shops Netflix will do to cinemas?

Tim Richards: I have been in the industry for 30 years. I have gone through DVDs, Blu-rays, the internet, Netflix, everything. We have been a very resilient industry, going right back to the big crash in the 20th century. We are economically resilient and we have stood the test of time. In fact, we have picked up and we are not seeing any impact with Netflix or any of the other internet suppliers. The main reason for that is that we are really in the out-of-home entertainment business. The in-home entertainment business is very different. The Netflixes of the world have been a major disruptor for terrestrial TV, pay TV, Sky TV and so forth but, for out-of-home entertainment, we do not see them as competition.

Kevin Frost: Tim is right. The cinema industry is incredibly resilient. If my CEO were here, he would say that he remembered cinemas being written off when we had colour TVs coming to the market. With every new technological innovation, there seems to be a suggestion that the cinema market will have to react to it, and that is true; cinemas do react. At Cineworld, we have been aware of the internet challenge for some time. Netflix is a good competitor, which we welcome to the industry.

The way we have reacted to the internet challenge is to invest in technology, to generate an experience that you cannot get at home in the living room at the touch of a button. We are big partners with IMAX. We have invested in 4DX and ScreenX. We have a VIP format. What we are trying to do at Cineworld, and have been doing for a number of years now, is to differentiate ourselves from the living room. We provide an experience that you cannot get at home. We are also designing our cinemas to deliver an immersive experience that, again, is just not available at home via Netflix or on the internet. It is important to have a USP in today’s age. The cinema industry is resilient and Cineworld is reacting by investing in this way.

Q438 **Helen Hayes:** Do you think that part of the resilience of the cinema industry is to do with the relationship it has with the physical communities in which you are present? There is something about the values that those communities have and the spaces that cinemas provide for people to come together. In my constituency, there is a very prominent dispute about pay with the Picturehouse chain, which I believe is part of Cineworld. In that instance, we can see on the ground how the cinema is very much out of kilter with what the community wants to see, in a way that is driving trade away from the cinema and to your competitors. One of the big cinema operators that is not here today, Curzon, has gone down the living wage accreditation route for pay and conditions. Certainly, if I can speak for my constituents, that would place it in a position that is more compatible with where the community is at on this issue. I just wonder about the extent to which that is an issue for you and whether, Mr Frost in particular, Cineworld is getting anywhere close to resolving that dispute in a way that would help to encourage and drive trade back to your sites in my constituency.

Kevin Frost: There are three questions there. Let me deal with those in turn. Yes, the community that supports the Cineworld or the Picturehouse is very important to us. That is our customer base. We encourage all our general managers and cinema managers to reach out to the local community, to be involved in their lives and to encourage them to see movies in our theatres.

The second point around the living wage is particular to Picturehouse. We have been the subject of a considerable amount of press speculation around our choosing not to sign up to the London living wage. It may surprise the Committee to know that we pay more than the London living wage. It has been our stated position that we prefer not to sign up. We prefer to manage our wage bill so that we can respond to the day-to-day economies that face each cinema.

Q439 **Helen Hayes:** It is not the case that you pay more than the living wage.

Kevin Frost: We do.

Q440 **Helen Hayes:** You cannot pay your rent with free cinema tickets, which is part of the justification that I have seen in writing from senior members of your staff as to how you get to more than the living wage, just to correct that.

Kevin Frost: Well, we do pay more than the living wage. I am more than happy to ask our managing director for Picturehouse to write to you with the pay per hour that we pay our teams. You will see that it is above the London living wage.

The third question you have asked is how close we are to resolving that particular dispute. As I understand it, because I am here as the property director, the dispute is broadly dealt with. Of course, there might be one or two odd issues left to deal with but it is very much in the past now. We work very closely with our staff. They are very important to us and they have been part of the Picturehouse community and Picturehouse team for years. It is disappointing that we have had to manage this dispute but it is in its final endgame now.

Helen Hayes: I would welcome that correspondence. Thank you.

Q441 **Mr Dhesi:** We have had the chance to look at the advent of colour TVs, Netflix and the cinema side. Let us delve into Debenhams, Ms Wynne. We had Mike Ashley over to give evidence to our Select Committee earlier this month. He told us that Debenhams and House of Fraser should work together in the future. His words were these: "They have separate management and separate egos and it is not their equity". He is also reported to have said that Debenhams should reconsider the £40 million cash injection. What are your views on that? What is your response to his comments?

Katharine Wynne: The first point to make is that, obviously, House of Fraser is a competitor of ours. He obviously owns 30% of our shares and now also, more recently, has acquired House of Fraser, which does compete against us. Clearly, we are open to areas of collaboration that would be compatible with competition law. We have also continued to engage with Sports Direct as a major shareholder. We have had some collaboration with them on their sports offer, some of which we have had within our stores in the past, and we continue to explore those kinds of opportunities.

In relation to the second part of your question, we made a statement to the media last week that acknowledged that we are very grateful for the wish of our major shareholder to be supportive, and acknowledged that the offer made to the board by Mr Ashley came with conditions that could affect the interests of other stakeholders in the business. When I am talking about stakeholders, I am talking about other shareholders, our lenders and pension holders, for example, as well as our staff and our customers. For that reason, the proposal, as it was presented, was not accepted by the board. That said, we continue to look to collaborate with Mr Ashley and our door remains open in terms of further discussions.

Q442 **Mr Dhesi:** There are many who are very, very anxious about our high streets. Debenhams is in most major towns and cities, and there was a reported £40 million cash injection that would help to save those stores. Do you not think it would be a dereliction of duty to not accept something, if there is nothing else on the table, when that could lead to the closure of all those stores?

Katharine Wynne: We have 166 stores across the UK and we generate £3 billion of sales annually. We are a big business and we serve 19 million customers in the UK. We announced our results in October and we confirmed at that point that we have been working on a plan for the last 12 months to address the challenges that the industry is throwing at us. As part of that plan, we are focusing very hard on strengthening our balance sheet and generating cash in what remains a very cash generative business. We generated operating cash flow last year of just under £160 million.

As part of that plan, we have confirmed that we are looking to close up to 50 stores over the next three to five years and, as part of that process, we are looking to negotiate with our landlords in order to ensure that we have a viable store proposition going forward. If we do not achieve improved terms on what is a very burdensome rent and rates cost base for our stores, which, like every other retailer, are seeing pressure on footfall, up to 50 stores will eventually become unprofitable. They are not unprofitable now; some are. We are not going to be closing any stores in the immediate future, but that is the situation as we see it and that is the plan we are working on.

Q443 **Mr Dhesi:** I have read about the Debenhams redesign strategy. What are the aims of that and how does it fit into your future strategy on the high street?

Katharine Wynne: We are not just a store-based retailer. About 20% of our sales are generated online. In fact, our online sales are about £500 million, so we are a big online retailer too and we are in the top 10 in the UK in terms of retail websites. What we are looking to achieve with our plan is to bring those channels closer together and to make sure that we are offering our customers, whichever way they choose to shop—and, obviously, increasingly they are choosing to shop online—as seamless an experience as possible. As part of that, we also want to make our stores and our continuing store portfolio, which will be at least 100 stores across the UK, as strong and attractive a destination as they possibly can be. It is about encouraging customers to visit us more frequently. It is about having a much more exciting and differentiated proposition, particularly in the premium beauty section, where we are market leader in the UK. We have a very strong fashion offer, but the other thing we have been growing, which is absolutely about driving footfall to our stores, has been our food offer, which showed good, strong growth last year.

Q444 **Mr Dhesi:** You recently had new stores opening up in Watford, Stevenage and Wolverhampton. Will you be opening more stores in that mould? Do you think the opening of such new stores is risky?

Katharine Wynne: We do not have very many new stores in our plan but we are looking to replicate the experience that we have shown, and Watford is the realisation of that future vision. We have been working on it for the last 12 months since we opened in Stevenage. Stevenage is a very successful store that generated sales of 50% above its budget in its first year, so we know we are doing something right in that location.

Watford has only opened very recently but it has been very well received by our customers. It is in a shopping centre on the high street in Watford. It is a really exciting beauty store, which has a large service element to it. You can go there to have a beauty consultation and a treatment. Downstairs, we have a really strong representation of our fashion offer. We are a big fashion retailer in the UK. It is probably not generally realised but we have about 5% of the clothing market in the UK. We have some really credible British fashion designers looking to work with us as part of that proposition.

We also have been working very hard on the service offer. I mentioned beauty before, and John Lewis talked about the click and collect and personal shopping services, which are a very important part of the proposition there. If we get that proposition right, we want to make sure that the 100 stores we will continue with over the longer term replicate that sort of experience in towns and high streets across the UK. As it stands, we need the help of our landlords to achieve that because, at the moment, our cost structure is out of balance, and that is making life quite difficult for us in terms of the future of those stores.

Q445 **Mr Dhesi:** We have looked into the risk and, given that some of us will need the beauty section more than others, it could be that you are on to a good strategy there.

What about you, Mr Frost and Mr Richards? We have had new developments in Bracknell, in Berkshire near Slough and elsewhere, where you have more cinemas coming. You mentioned earlier that you have seen off the advent of TV, DVDs and lots of other fads that have come along. Where do you see the risk within your own strategy with regards to the high street?

Kevin Frost: At Cineworld, your starting position might be that there are enough cinemas in the UK. The challenge in the cinema market is that a lot of the older-style cinemas are not fit for purpose. The customer, particularly the young customer who has grown up in the digital age, wants a far more immersive experience than their predecessors did. The cinemas for which we entered into 20 or 25-year leases are not fit for purpose. We either need to substantially alter them—

Mr Dhesi: Does that mean more virtual?

Kevin Frost: No, it is about making the experience much more immersive in the auditorium itself, for example stadium seating from the first row; ample leg room; world-class surround sound; big screens, wide and tall, that are much higher and wider than you have ever experienced before; circular screens. A lot of the cinemas that were built for the plex market 20 to 30 years ago do not deliver that. The young generation wants that immersive experience.

The starting position might be that there are enough plexes but the reality is that we have to replace the old stock with either altered stock or new stock. We have a healthy pipeline of new cinemas at Cineworld. Katharine mentioned Watford a moment ago. We are also in the town centre at Watford.

Q446 **Mr Dhesi:** That is very good to hear. In terms of the future, Mr Richards, do you perceive any risks?

Tim Richards: I will just touch on one thing that Kevin mentioned. There are very few game changers in our industry, but stadium seating, which Kevin mentioned, is one. Stadium seating was first introduced in 1994 and everything built before 1994 tended to have sloped floors. If you sit in a sloped floor cinema and there is somebody sitting ahead of you, you will have half the screen blocked. With stadium seating, you have a computer-generated perfect sightline for every seat, and that is a game changer. I completely agree that there will be a replacement of inventory, old for new. There are still a very large number of cinemas in the UK that have first-generation sloped floors or are even first-generation cinemas going back to the post-war period when cinemas were very active.

In terms of the high street, we love to mix leisure and retail. We like for our customers to come in and be able to spend an afternoon or an evening, so that they can watch a movie and then go out shopping or have a meal, or they can have a meal first and watch us later at night. It is very complementary and that is why we have a vested interest in maintaining a very healthy high street.

Q447 **Mr Prisk:** I wonder if I could look at the business costs and the way in which they impact alongside more competitive marketplaces. I will start with retail and then come to leisure in a moment. We have had discussions with different witnesses about online shopping and perhaps competition across the sector as a whole, but also about business rates and the fact that they are fixed, so they squeeze particularly when turnover is down, and rents as well. Specifically for Debenhams, what has been the single most important impact for you of those different factors?

Katharine Wynne: We pay about 8% of our UK sales in rent and 3% or so in business rates. I mentioned earlier that the problem the industry has of declining footfall means that, even though we are growing our sales online, our in-store sales are declining. Clearly, we are still bearing that fixed cost overhead. Indeed, as I am sure you are aware, we have a structure in the UK of upward-only rent reviews, which still applies to our business. As a result of the changes in the marketplace over the last few years, about two-thirds of our stores are now paying above market rents in their location. That is a big problem for us.

Q448 **Mr Prisk:** Is that as a result of upward only or is that what you signed up to in the first instance?

Katharine Wynne: That is a result of having signed up to upward only. As locations have changed and some of our competitors have done company voluntary administrations and that kind of thing, they have seen their rents fall. As new entrants have come into that market, in order to attract them in, they have been able to negotiate lower rates. We find ourselves sitting with the old structure. Many of our leases were signed many years ago. In fact, my chief executive likes to note that several of them were signed before the advent of the internet and at least one of them runs until the next century, which is slightly scary.

Mr Prisk: For you, it is the combination.

Katharine Wynne: It is the combination.

Q449 **Mr Prisk:** Does the leisure sector have a similar challenge around rates and rents?

Kevin Frost: At Cineworld, we are aware of the upwards-only rent review trap. It exists at a number of our cinemas where rents have been set at the very latest record rent in the marketplace, but that is not the marketplace tone. If rents fall away, as they have done over the last two to three years, we are then stuck at an artificially high rent level. I am pleased to say that it is not the big problem that I know the retail market has. For Cineworld, rent accounts for 14% of sales. We spend £63 million on rent. We also have the rates overhead, which is £25 million and just around 6% of sales, but, critically, we pay service charges to landlords amounting to £11 million. Our total property overhead is close to £100 million, which is 22% of our sales. The focus is always on rent and rates but you must not forget service charge, which is the property overhead of any business.

That is a big overhead. On rates, it is tough for us because we had to accept a massive valuation hike as a result of the 2017 revaluation and we now pay 20% more rates than we did. Service charge is constantly increasing, and we often find ourselves wrong-footed by landlords and managing agents who are not necessarily delivering value for money, but that is the property overhead that we face. It is a cost but it is one we work very hard to control. When we enter into new leases with landlords, we suggest to them that perhaps the more appropriate way is a CPI-geared rent review to avoid the lottery of open market rent reviews and the artificial fixing to record rents. If ticket price keeps pace with CPI and rent does as well, your EBITDA, effectively, is protected. That is something that we often suggest to landlords if we are re-gearing a lease or entering into a new one.

Q450 **Mr Prisk:** I will come back to some specifics on the nature of the leases in a moment. You both very helpfully set out the current proportions for rent and rates of your turnover. Mr Richards, what are your thoughts?

Tim Richards: They are remarkably similar, having never compared notes before. We have spent over £70 million on rates in the last five years. We are currently running around £16 million a year in rates.

Q451 **Mr Prisk:** Do you know what proportion of turnover that is?

Tim Richards: I have it in total. We spend £92 million on property costs. That is an all-in figure with rent rates and service charges. That together with rates equates to 21% of our total turnover. Part of the issue, which I think you raised, is that the rates themselves are not really tied to performance. Certainly, we are fortunate that we do not have a lot of underperforming sites, but the ones we do have get hit very hard by rates. We have one on Fulham Broadway in London that has one of the highest rents in the country, and we have been hit very hard by rates there. It has a knock-on effect, because you are less inclined to invest there since you know that you will never make money at that particular site. We maintain all our sites to a minimum standard regardless, but you do not go that extra mile when you know you are just throwing good money at bad.

The other point I would make is that we are very active right across Europe right now. We are the largest cinema operator in Germany, among other markets. There is no rates equivalent in other markets with similar levels of corporation tax. When you look at that corporately and think about where you are going to invest your money for a new site development, it becomes an issue, because you look at the rates and the impact they have on the profitability of your investment.

Q452 **Mr Prisk:** Can I ask about what Government might do? We have had lots of suggestions in this area, but specifically on this issue of either rent terms, outlawing upwards-only rent reviews for example, or changes to business rates, what Government intervention would help the most? If you were sitting at the Minister's desk, what would you want to initial as being the key change that would help your bottom line?

Kevin Frost: It is a good question. Anything that helps the bottom line is going to be welcome. The upwards-only rent review debate is not a new debate. It has been raised by other tenants for some time. There is a huge vested interest among the landlord community to prevent anything happening to upwards-only rent reviews. As a 30-year veteran and chartered surveyor, I have no doubt that, if upwards-only rent reviews were somehow controlled or even banned in the leisure market, landlord behaviour would change overnight. It would be considerably less focused on rent and value, which tends to be landlords' focus, naturally, and more on customer experience and what drives the tenants' business.

If the landlord genuinely faces a rent risk, it is certainly my opinion, and I look to my colleagues to support me, that they would have a material interest, more than they have at the moment, in understanding the customer experience, which is absolutely central to the leisure sector and, dare I say it, the retail and hospitality sectors. But the property market is what it is.

On rates, we did get hit and it is a cost that we have had to bear. Along with rent and service charge, it is one of the three biggest costs in our business. Local councils have to raise the revenue somehow and we understand that, but it was quite a blow.

Katharine Wynne: Retailers pay, I think, the vast majority of business rates. We are focused on trying to achieve a level playing field, because it seems to us that the amount of rates we are paying and where the burden falls is currently disadvantaging retailers in bricks-and-mortar locations versus those that operate pure-play online. Clearly, the Government made some proposed changes in the last budget, but they were very much and quite understandably focused on very small businesses. We will not benefit at all. For us, when you look at the whole distribution of business taxation, it appears that there probably needs to be a more root-and-branch reform than just tinkering around the edges with the existing arrangements.

Q453 **Mr Prisk:** Cinemas are obviously a different class from retail and so on, but the landlord community have an interest, in that they have a longstanding investment. If we were to look at removing upward-only rent reviews, does that suggest a different model in terms of business leases? Is it shorter as a term? How do you value it? What is the basis of that? How is it linked to performance, for example? Clearly, retail would be different to leisure, but I would be interested in your views on those.

Kevin Frost: The upwards-only rent review machinery is a key ingredient for any landlord investor. They would struggle, probably, with the amount of capital investment that goes into property if their income was no longer guaranteed in the way it is. The challenge with that model, though, is that it does not react to the economic challenges that a tenant may face. In the leisure market, cinemas at least are in a good place, but I certainly hear that retail is not. That is a real challenge for town centres and high streets because the retailers are burdened with a rent review pattern that has resulted in an artificial rent. I do not know if that necessarily answers your question, but certainly that is my thinking.

Tim Richards: The UK market is unique. You do not tend to see the kind of leases here that you see elsewhere and they tend to be a lot longer in duration. Continental European leases tend to be much shorter.

Q454 **Mr Prisk:** Do you mean 10 years, five years?

Tim Richards: They will be 10 or 15 years, but they typically have options tied to them and you do your very best to make sure it is a tenant-led option and not a two-way option. I agree that the upward rent is a tough one, but part of that depends on what it is tied to. I know, when we first started out, we had a very hard time because we were up against very big developers and we were a very small company. We had no leverage at all. During those days, we had a number of leases that had forced uplifts of 3% or 4% per annum, regardless of what happened in the market.

Q455 **Mr Prisk:** Per annum?

Tim Richards: Per annum, yes. That just ratcheted up every year. Now that we are more of a brand and a major player in the market, we have a lot more leverage and it is a bit easier, but we are still encumbered with a large number of leases. Fortunately, we have had a successful run but the property costs have been huge.

Q456 **Mr Prisk:** What about the retail sector?

Katharine Wynne: There are new models emerging in the retail sector. New leases that are signed tend to be of a much shorter duration. It is much more typical for them to be 10 years. Our average lease length currently is 18 years, and we have, as I said, a number of much longer leases than that. There has been some movement towards turnover rents but the vast majority in our case are traditional-style leases, some with fixed upward increments on an annual basis and others that are standard five-year upward-only rent reviews.

As for our approach, we took the decision in October to put a number on the locations where we saw this potentially leading to an unprofitable model. We said at the time that we would be going out to speak to all our landlords but, because we do not have a burning platform of stores, we have some time to have those conversations. We have a programme for the next three to five years, and at the moment we are going around and talking to our landlords, to see if we can come up with an appropriate solution. With landlords that have multiple sites, there might be a quid pro quo to be done. It is obviously harder working on an individual location basis.

Because we have gone public in terms of our intentions, we are starting to see some coming to us, to see if they can make constructive suggestions about particular locations. We are open to all those discussions. We have one particular instance, and I will not name the location, where the local authority and the landlord have got together and put together a regeneration plan for that particular location. They are prepared to invest behind our store in that location to anchor it. This means that that store, which might otherwise have been slated for closure, now hopefully will be able to stay open.

Q457 **Chair:** Coming on to the closures, one of the challenges—obviously, you are competing with other retailers—is that very often when retailers close, be it you, Marks and Spencer or House of Fraser, they often close in the same location and it has a major impact. Is any thought given, when you come to look at closures, to the wider impact or is it simply about the bottom-line profits for you?

Katharine Wynne: We have a responsibility to our staff and our customers in those locations, and that takes our first priority. We would always look, for example, to redeploy staff in a location where we are going to have to close a store. Ultimately, I think we cannot take responsibility on our own for the future of individual locations. Ideally, where there can be collaboration, particularly between the local authority and the landlord, to make sure those locations have a plan for what happens in the event that one or more stores exit that location, it is an opportunity for us to look at that and see if the store could be viable for the longer term. Ultimately, we have a responsibility to protect the 25,000 employees across the country. If that means that, in some locations, we have to close, that is a decision we have to make.

Q458 **Chair:** Do you have any responsibility, then, or is it just a case of looking after your staff and walking away?

Katharine Wynne: We have responsibility to our staff and to our customers. They are obviously part of a local community in those locations, so absolutely that is our responsibility.

Q459 **Chair:** Do you have any responsibility for trying to find new uses for the buildings that you leave behind?

Katharine Wynne: That is the whole point of my comment earlier, that we are looking to do this programme over a longer period of time, precisely so there is an opportunity in those locations where we do not see a viable future for our store but the landlord and/or the local authority has an opportunity to find a new purpose for that location.

Q460 **Chair:** Before you decide to close a store, do you proactively go to the local authority and say, "This is a bit of a problem here. Can you do anything in terms of a package to help us keep it open?"?

Katharine Wynne: There is a dialogue that continues. We had not had very much proactive engagement from local authorities and areas in the past, but since we made our announcement in October we have had a lot more constructive engagement than we had done previously.

Q461 **Chair:** Is that them coming to you or you going to them?

Katharine Wynne: It is both.

Q462 **Chair:** Before you close a store, would you go to the local authority and say, "This is a problem. We may have to close. Can you help us"?

Katharine Wynne: It will vary by location and what the particular circumstances are. In some cases, you are dealing with an individual landlord. In some cases, the local authority may well have a part to play. What is interesting, and one thing that is changing in the industry as a whole, is that local authorities are getting more involved in retail locations.

Q463 **Chair:** Coming over to cinemas, where you are not closing particularly, but you may be looking to open, you said that leisure is going to play a more prominent role in the offering on the high street. Do you find that you are being crowded out by areas being re-designated as housing and there are not the same opportunities for you to move into spaces that may be there?

Tim Richards: It is difficult because we need a specific amount of space, particularly in height. In some instances, we have taken over very difficult buildings and shoehorned cinemas in. We took over an old building in Exeter, which I think was a Post Office at one point, and turned it into a cinema. It is challenging and expensive to do, but the spaces are there. There are not as many opportunities and we have to be a lot more selective now than we have been in the past. As we said before, there are existing cinemas that are being replaced, so you have an infrastructure, albeit one that needs to be considerably modernised.

Kevin Frost: We are very keen to open new cinemas in towns and cities. For us, if there is a space available in the high street or the town centre, it is something we would want to look at very closely. We have a whole number of factors that are part of our decision-making. We start with the catchment size and the competition that might already be there, but then we look at the site itself. We are looking for things like access and transport links. We are looking at the adjacencies. We are looking at the size and height of the demise. Car parking is a key feature of cinemas, free car parking in particular.

That is where you start to run into the challenges of the town centre and the high street, because the big boxes for the next-generation cinemas are really very difficult to deliver from both a physical and a planning point of view. Then looking at it from the developers' point of view, if they have a planning requirement for a cinema but very little else has been attached to it, the easy option is to run for a neighbourhood or a boutique cinema, and not go the full mile to the plex model that the community or the catchment will want. There are two very polarised types of cinemas in the market. You have the neighbourhood or the boutique cinema, which is two, three, four or five auditoria, and then the plex model, which is twice the size with all the formats and the film choice that the young, digital generation demand.

At Cineworld, it is very important for us that the planners and town councillors recognise that, to get the gravity and the footfall to the town centre that is now missing, they need to go large and go with the plex model. But there are challenges around that; there is no doubt about it: car parking space, access and so on. Some councils are doing very good things in the UK, and we have direct experience of that. We are going into town centres. We have just gone into Watford. We are opening in Ashford this week. We are in Eastbourne and Plymouth next year.

These are schemes, but there are also councils that are master planning their cities and towns, and thinking about the interaction of all the different sectors. There are some leading lights out there, and we have had the privilege of engaging with them. They are going the multiplex route. If you look at Barnsley or Warrington, they are really master planning their towns, thinking about the public space and the various uses that customers want from their towns, having a retail hub but with the alternative uses that are out there. We are excited about that future and we want to interact with councils more on that basis.

Tim Richards: Technology has played a big part in that, because we are able to build a lot more efficiently than we ever were in the past. We were first opening up cinemas 25 or 30 years ago, and they tended to be 35,000 square foot and nine or 10 screens, all big screens with a big footprint. Now, with the advent of digital and new operating systems, we have not built a box office in a cinema in 15 years, for instance. We are able to build them considerably more efficiently. Projectors are now digital. We are also very active in town centres. With the advent of digital projectors, you are able to show more movies to more people, and that has been a bit of a game changer. Historically, literally up until eight or nine years ago, film would arrive in cans, the same way it has for over 100 years. A projectionist would put it together and put it on a screen. It was physically difficult to show more than two or three films a day.

Now we have very large servers that can hold a large number of movies. That is in part why we are able to show the breadth of content that we do. There is a huge market in the UK for British independent film, and you are starting to see a resurgence in British film because of that, because we are able to show through the server, through the digital projectors, British film to that audience, even if it is just one screening on a Tuesday night. That is being done now, typically a lot more city centre based than in out of town complexes.

Q464 **Chair:** Very briefly, on cinemas, you mentioned using some buildings that might be challenging. Is there any way you can use old department stores that have been shut down and reconfigure them, along with others? Is that a challenge?

Kevin Frost: It is a great question. You would think that that is the obvious solution, and we would like to look at opportunities like that. But department stores, from a structural point of view, invariably have far too many columns, so there is a real structural challenge around getting the auditoria right. Too many of the old-style auditoria were shoeboxes. Brand new auditoria tend to be much squarer and taller boxes, and department stores tend not to lend themselves to that sort of structural engineering.

It can be done, but it is very expensive. Therein lies the problem, because it is an easier option to put in a much smaller cinema that does not offer the film and format choice that a plex would. That would be short changing the town, in our view. It is a good question and the answer is that, yes, it can be done but it is expensive. The financials always need to be right between landlord, developer and tenant. The most important thing for us is that the council thinks about the type of cinema that is going into its town.

Tim Richards: We are seeing in smaller communities, where retailers are shutting down, that they just knock the building down and it is cheaper to put in a new, integrated leisure complex, which is typically what we are doing. I agree that the key to this is a well-driven plan for the community.

Q465 **Chair:** Going back to Debenhams for one point, how much more could retailers do to help themselves? I probably do not want to go shopping for a fashion item, new furniture or an electrical purchase at 9.00 in the morning but I quite like to do it at 6.30 in the evening. If I go down the high street then, most shops are shut.

Katharine Wynne: Actually, we tend to have later opening hours than most.

Q466 **Chair:** I looked at yours. You are open until 7.00 now. I noticed that. But lots of the stores around you are shut. I want to get several things and there is only one store open. How much more could retailers do to help themselves on the high street?

Katharine Wynne: On extended opening hours, sometimes you are in a closed shopping centre and governed by the opening hours that the shopping centre operates. We probably have some fairly flexible opening hours, particularly at peak shopping times like Christmas, when most stores will probably be open from 9.00 until 9.00 at the moment. We are alive to that.

In terms of other means of self-help, one thing we want to be sure of is that our click and collect function, for example, is a good alternative to customers who are happy to come and pick up their product rather than have it delivered to their home. In many ways, that might be a more attractive option for them. One of the other speakers talked about having changing rooms alongside the click and collect operation, so that people can come in, try it and return it there and then, rather than taking it home and then returning it, for example. We are starting to offer that.

Q467 **Andrew Lewer:** That is a really good point because I do not remember anyone ever saying to me, "This store does not open early enough". It is always that it shuts. I just wanted to ask you broadly, to conclude, whether you have any experience of investing in high street and town centre development and regeneration projects generally.

Kevin Frost: We certainly do. We have been doing this for the best part of five or six years now. In terms of regeneration, we have worked very closely with Barnsley and Warrington and their master-planned regeneration schemes. We are investing in town centre schemes with developers in Plymouth next year, Eastbourne just last week and Watford. We are actively investing in town centres. We follow the developer, ultimately. We are not a developer ourselves. We are really the end user. We are not necessarily the trigger, but we are there to take this space. It has to be properly configured. The scheme, the access and the terms need to be right for us to jump, but we are doing it. Town centres and high streets are of interest to us for both the plex and the neighbourhood cinemas that we have in our business.

Tim Richards: Absolutely, it is the same for us. We tend to work very, very closely with local councils and developers. We work with local councils and help them to plan out how they can do it, in terms of having a mixed retail/leisure complex. I just double checked; I thought it was 50%, but over 60% of our sites are in town and city centres across the country right now; 40% are just outside town. We work very, very carefully with them. Similarly, we are very committed to investing in the UK currently.

Katharine Wynne: Kevin mentioned Watford. There is an example of a longstanding, existing shopping centre right in the middle of town with a big extension project, which we have anchored, alongside cinema and a number of other retailers. We have been actively involved in that scheme as it has progressed. As I mentioned earlier, and I am not sure if it was before you came back in, in one particular instance the local authority has come to us with a developer. They are doing a wider regeneration scheme in the location, which they absolutely want us to be part of. We will get involved in that at an early stage, because we are an anchor tenant with a big space.

Q468 **Andrew Lewer:** I wanted to ask you whether you felt the presence of a business improvement district or something of that sort has helped, and whether areas where there are two tiers of local government versus unitaries has made a difference, helped or proved a hindrance.

Katharine Wynne: Where there is a joined-up approach, we are pro how that structure works. Clearly, that does not happen all the time. That is what we would be looking to achieve out of it.

Kevin Frost: We contribute to around 30 BIDs in our estate. The principle and the initiative is a very good one. To our mind, we would like to see BIDs extended, to see them be more effective than they already are. There is a question from the tenant community about whether one BID is comparing best results and skills with another BID, but BIDs as a principle are a very good thing and we would like to see them more often, to be honest with you. The two-tier structure we are very happy with. We have no particular comment on that. Our engagement with councils is always a good one.

Tim Richards: I agree on both fronts.

Chair: Thank you very much for coming to give evidence to the Committee this afternoon.